LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6500 | **NOTE PREPARED:** Jan 1, 2012
BILL NUMBER: HB 1242 | **BILL AMENDED:**

SUBJECT: Deductions for contract and co-op property.

FIRST AUTHOR: Rep. Pryor | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: *Cooperative Housing:* This bill specifies that a person who uses cooperative housing corporation property as the person's principal residence must demonstrate a substantial equity interest in the shares of the cooperative housing corporation to qualify the property as a homestead.

Contract Property Sales: The bill consolidates duplicated provisions setting conditions for granting of deductions for property being sold under an installment contract into a single section. It provides that property subject to an installment contract does not qualify for a property tax deduction unless the installment contract is an enforceable contract. The bill requires that contracts for the sale of real property that are entered into after March 31, 2012, must specify the total contract price for the sale of the property.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Cooperative Housing:* Under current law, homesteads receive a standard deduction worth 60% of AV up to $45,000. Homesteads also receive the supplemental standard deduction worth 35% on the first $600,000 of net AV after the standard deduction plus 25% of the net AV that exceeds $600,000. In addition, homestead property is subject to a 1% circuit breaker cap.

A homestead is defined as a an individuals's principal residence that the individual owns, is buying under contract, is entitled to occupy as a tenant-stockholder of a cooperative housing corporation, or one that is owned by certain trusts. This bill would define an eligible cooperative housing corporation. A *qualified* tenant-stockholder would qualify as a homesteader only if the property is "*eligible* cooperative housing corporation property".

Under this bill, an eligible cooperative housing corporation is one that is defined in sec. 216 of the Internal Revenue Code, owns residential property, and is not a leasing or zero equity cooperative. The bill also defines a qualified tenant-stockholder as an individual who:
1) Qualifies as a tenant-stockholder (under federal law) of an eligible housing co-op;
2) Uses the property as the principal residence; and
3) Can demonstrate ownership interest in the shares of the co-op that has a value at least equal to the true tax value of the residence.

For co-ops, this bill would restrict homestead status to qualified tenant-stockholders who occupy an eligible cooperative housing corporation. Co-op property that doesn't meet the above guidelines would lose its homestead status beginning with taxes payable in CY 2013. There is no data currently available to identify those properties that would be affected.

Loss of homestead status for any property would mean the loss of the standard and supplemental standard deductions, as well as being subject to the 2% circuit breaker cap for non-homestead residential property rather than the 1% cap for homesteads. The loss of the deductions would add assessed value to the tax base and shift part of the tax burden to the affected property owners from all other property owners. The higher property tax cap on nonqualified co-ops would potentially reduce revenue losses for taxing units where the property is located. The additional net assessed value would also reduce tax rates causing a further reduction in circuit breaker losses for civil taxing units and school corporations.

Contract Property Sales: Under current law, several property tax deductions are available to qualifying persons who either own property or are buying the property under contract. This bill would affect the mortgage, elderly, blind / disabled, disabled veteran, WWI veteran (and spouse), rehabilitation, solar thermal, wind device, coal conversion, hydroelectric, coal combustion product, and homestead standard deductions.

In order to qualify for these deductions, this bill specifies that the contract for real property, a manufactured home, or mobile home must (1) be enforceable, (2) require the buyer to pay property taxes, (3) be recorded, and (4) for contracts entered into after March 31, 2012, specify the total contract price.

A fiscal impact would occur only if a current or future contract does not contain these terms. If a contract does not meet these requirements, then the deduction would be terminated. Without the deduction(s), the net assessed value of the property would increase which would add to the tax base and reduce tax rates. In addition, if the standard deduction is removed from a property, then taxes on the property would be capped at the 2% residential cap rate rather than the 1% homestead cap rate.

State Agencies Affected:

Local Agencies Affected: County auditors; County recorders; Local civil taxing units and school corporations.

Information Sources:

Fiscal Analyst: Bob Sigalow, 317-232-9859.